Indiana Housing & Community Development Authority

To: Real Estate Department Partners **Notice: RED-14-19**

From: Real Estate and Finance Departments
Date: May 20, 2014 - **REVISED July 22, 2014**
**Re: Permanent Loan Product for 9% Tax Credit Developments**

**Notice: IHCDA received approval on June 26th from the IHCDA Board of Directors to offer a permanent loan product, pursuant to the attached term sheet, to developments that have received an allocation of 9% tax credits. In order to be eligible to use this loan product, a development must have been allocated 9% tax credits by the IHCDA Board of Directors on or after February 2015. Eligible applicants will be able to apply for this loan product after receiving an allocation of tax credits. More information, including the application, and draft loan documents will be forthcoming. Please contact Blake Blanch at bblanch@ihcda.in.gov if you have any questions or concerns.**

# IHCDA 9% Tax Credit Permanent Mortgage Forward with Rate Lock

## Key Features

1. Permanent interest rate is locked prior to construction start eliminating interest rate risk.
2. Minimize negative arbitrage during construction period since permanent loan funds do not have to be advanced until the property qualifies for permanent financing (“Conversion”).
3. Flexible terms including rates, amortization periods, etc....
4. Apply for financing after receiving an allocation of 9% tax credits.
5. Standard template documents agreed to by major syndicators in the state

# IHCDA 9% Tax Credit Permanent Mortgage Forward with Rate Lock

**Loan Amount:** Up to $1,000,000
**Forward Interest Rate:** Fixed at Equity Close. Based on the following formulas (rounded to the next .125%, so a 5.32% formula rate becomes 5.375%) **(Mortgage rates below assume 18 month lock) (add an additional 25 basis points for 24 month lock)**

-Mortgage rate on a fully amortizing loan: Index + 225 basis points
-Mortgage rate for loan with an amortization of 30 yrs or less: Index + 275 basis points
-Mortgage rate for loan with amortization greater than 30 yrs: Index + 375 basis points

**Index**: 10 Year US Treasury Rate [1]
**Minimum Debt Service Coverage Ratio:** 1.15
**Maximum Loan to Value (“LTV”):** 75% (LTV calculated at tax credit rents)
**Rate Lock term:** up to 24 months
**Permanent Loan Term:** Up to 17 years
**Amortization:** Up to 35 years
**Loan Type:** IHCDA is acting as the permanent lender and does not take on construction period risk, thus during the construction and lease-up phase, another acceptable construction lender, acts as the interim lender.
**Permanent Loan Conversion Requirements:** Property must be 90% physically occupied for 90 consecutive days prior to Conversion. The property must also have been satisfactorily completed.
**Recourse:** Non-recourse with standard Agency carve outs (for such items as Fraud, and Misrepresentation, etc…)
**Closing Fee:** Third Party actual costs (title, legal, etc…). Estimate will be available prior to submission of an application.
**Application Fee:** $5,000
**Forward Commitment Deposit Fee:** 2% of the loan amount in cash or Letter of Credit (refundable at Conversion)
**Loan Security:** First lien mortgage (upon Conversion)
**Prepayment:** Requires IHCDA approval, which will not reasonably be withheld.
**Assumption:** Requires IHCDA approval and payment of 1% assumption fee and $3,000 processing fee.

1 The index will be the rate on the 10 Year US Treasury Bond as posted on the US Department of Treasury website for the business day prior to the day of the rate lock. If the website is unavailable, the Wall Street Journal or similar financial newspaper or the GT10 function on a Bloomberg will be used to determine the index.

**Subordinate Financing:** Allowed but must be subordinate to this Mortgage
**Reserves:** Taxes, Insurance and Replacement Reserves
**Normal Processing Time:** 60 to 90 days from the receipt of the signed application and check
**Closing Conditions:** Standard industry due diligence
**Deferred Developer Fee:** A minimum of 25% of the developer fee will be required to be deferred and paid out equally over a minimum of the first 5 years of this mortgage. This can be paid out either via cashflow, or via a control account. Developments proposing deferred developer fees greater than 25% and being repaid over a period longer than 5 years meet this requirement. The Developer Fee Payout Cap below summarizes the maximum % of the developer fee that a developer can receive over the first 5 years of this mortgage.

**Developer Fee Payout cap**

| End of Year of Mortgage | Maximum % Developer Fee Received |
|---|---|
| 1 | 80% |
| 2 | 85% |
| 3 | 90% |
| 4 | 95% |
| 5 | 100% |